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MANAGEMENT
ADVISORY SERVICES
PRACTICE AIDS

PRACTICE ADMINISTRATION AID

5

Communicating With Clients About MAS Engagement Understandings

NOTICE TO READERS

MAS practice aids are designed as educational and reference material for the members of the Institute and others interested in the subject. They do not establish standards or preferred practices. The standards for MAS practice are set forth in the Statements on Standards for Management Advisory Services (SSMASs) issued by the AICPA.

Members of the 1986–87 AICPA MAS Practice Standards and Administration Subcommittee were involved in the preparation of this practice aid. The members of the subcommittee are listed below.

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The subcommittee gratefully acknowledges the contribution made to the development of this practice aid by Gary Leeman and other former subcommittee members.

***Communicating
With Clients About
MAS Engagement
Understandings***

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Preface

This practice aid is one in a series that addresses administrative matters related to the provision of management advisory services (MAS) to clients within the environment of a CPA practice. These documents will be of particular interest and value to those who have administrative responsibility for an MAS practice, but they also will be useful to anyone providing MAS as a CPA, whether as a sole practitioner or a partner or a staff person in a single- or multiple-office CPA firm.

The information provided in this series may not be directly applicable in every circumstance because the nature, organization, and operation of MAS practices vary considerably. Professional judgment should be used to adapt appropriate concepts or practices described in these documents to match the administrative requirements of a specific MAS practice.

These practice aids do not establish binding standards or preferred practices. However, MAS practice is subject to binding Statements on Standards for Management Advisory Services (SSMASs). MAS practice administration as discussed in these documents may include quality control matters as well as practice management matters.

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PART ONE

OVERVIEW

Scope of This Practice Aid

Due to the specialized nature of MAS engagements and the diversity of results possible in such engagements, the MAS practitioner and the client need to reach a mutual understanding about the nature, scope, and terms of each engagement. As explained in MAS Practice Administration Aid No. 1, *Developing an MAS Engagement Control Plan*, an understanding includes agreeing on arrangements and communicating them. Communication is important because each engagement is a contract, either expressed or implied. This practice administration aid provides information to assist practitioners in communicating with clients about MAS engagement understandings.

As a client and an MAS practitioner work together during the preparation and presentation of a proposal for an MAS engagement, they develop assumptions and expectations. These assumptions and expectations about each party's performance often exist as an unstated agreement. To avoid misunderstandings, it may be desirable for each party to inform the other about its assumptions and expectations through written communication. Such written communication can provide a framework of understanding at the beginning of a project.

As a project progresses, each party's expectations and assumptions may change. The practitioner needs to be aware of such changes because they may affect the project and the client relationship. Additionally, the practitioner may encounter factors different from those the client has stated. Consequently, the practitioner's performance may become inconsistent with the client's expectations and create problems in the client-practitioner relationship. Therefore, a need for communication of understandings exists throughout the project.

MAS Practice Administration Aid No. 1 describes the various forms of understandings as follows:

Proposal letter. A proposal letter is an offer of services. When accepted, it becomes a contractual agreement. The proposal letter generally covers engagement objectives, potential benefits, other elements of the proposed engagement plan, and arrangements that the client should know about in order

to make an informed decision concerning acceptance of the proposal. If subsequent events require alteration of the initial letter, amendments can be made provided written confirmation is obtained.

Confirmation letter. A confirmation letter is a brief and concise statement of an agreement previously reached with a client. It might indicate changes to a proposal letter or outline a discussion of significant engagement matters.

Engagement letter. An engagement letter is a contractual agreement used primarily when the client has already agreed that the firm will undertake the project. The letter documents the understanding, including objectives, benefits, plans, and arrangements, in about the same level of detail as might appear in a proposal letter.

Contract. A contract is a legal document generally prepared by the client, often incorporating a proposal letter or engagement letter prepared by the firm.

Oral understanding. An oral understanding of an MAS engagement may be reached when the client may view a written proposal or engagement letter as unnecessary or undesirable. In such cases, however, it may still be desirable to document the understanding in a memo to the file for the benefit of other firm personnel who may become involved in the engagement.¹

A proposal letter, confirmation letter, engagement letter, or contract generally represents an understanding reached before the engagement has begun. The practitioner may have performed a preliminary survey before the appropriate letter(s) or contract is prepared, or the preliminary survey may be phase 1 of the planned engagement, to be followed by another engagement letter detailing the later phases. Changes in engagement understandings during an engagement are stated in supplementary letters or memorandums.

As indicated earlier, not all engagements require written understandings to be communicated to the client. A memo for the practitioner's client file may be appropriate in such cases.²

An MAS engagement understanding may involve many common elements of information no matter which communication method the practitioner uses. To help the practitioner determine what information to communicate in a specific engagement, this practice aid describes a variety of such elements and illustrates them in a sample checklist and sample letters.

1. MAS Practice Administration Aid No. 1, *Developing an MAS Engagement Control Program* (New York: AICPA, 1984).

2. See "Understanding With Client in MAS Engagements," in *Statement on Standards for Management Advisory Services No. 2, MAS Engagements* (New York: AICPA, 1982), 4.

Reasons for Communicating

Communicating the understanding of the MAS engagement is a step toward effectively achieving the agreed-upon results. It provides both parties with a common framework for the engagement, which is important for engagement success. The following paragraphs describe some advantages of such communication.

Developing an understanding with the client. Avoiding a client-practitioner misunderstanding is critical to a successful engagement. The understanding may address the details of the services to be rendered, the fees, and other terms and conditions of the engagement.

Orienting the staff. A practitioner's staff members require a complete understanding of the nature of the work expected of them. Engagement staff also need to be informed in advance about the scope of the engagement so that they can properly plan and perform required steps and procedures.

Establishing the contractual obligation. Engagement understandings are contracts created when the practitioner agrees to render services and a client agrees to pay for them. Engagement understandings can clearly delineate the duties and responsibilities of both the client and the firm.

Limiting legal liability. An engagement understanding can establish the scope and nature of the practitioner's contractual obligation to the client by setting forth, clearly and specifically, the work the practitioner has agreed to perform. A review from a legal viewpoint is appropriate because the engagement understanding binds the client and the practitioner equally.

Aiding in practice management. Reviewing an engagement letter or other written understanding provides an opportunity for others in the firm to correct or amend the content of the communication before it is delivered to the client.

Providing for an orderly assessment of the MAS engagement. A written engagement understanding may permit an assessment and review of the client services actually performed as compared to those described in the initial engagement understanding. The assessment after the engagement provides a learning opportunity to improve future engagements.

Elements of the Engagement Understanding

In reaching an understanding with a client about an MAS engagement, the information a practitioner communicates will vary. The paragraphs that follow address some information elements that might be considered.

Client background. Discussions of the client's background may include the history of the company and the specific engagement. Restating the client's perceived problems or current status as well as describing the engagement helps define the understanding.

Engagement objectives. By stating the engagement objectives, the practitioner can communicate the preliminary understanding of the problem to the client, the reasons for performing the work, mutual expectations, and the major form of project products.

Engagement scope. By defining the scope of an engagement, the practitioner focuses more specific attention on the objectives. The practitioner can address the particular project areas, thereby describing the work to be done, the work to be excluded, the overall engagement schedule, and the interim objectives to achieve throughout the project. This reduces the possibility of the client anticipating the scope to be larger than intended by the practitioner. It can also highlight other areas of opportunity.

Engagement approach. In describing the engagement approach, the practitioner outlines the steps to complete the engagement. Such a description might include how and in what order the practitioner will perform the work. Often, many different engagement approaches can provide the same results, but used simultaneously they can cause disruption and confusion. Therefore, the client and practitioner need to discuss and understand the engagement approach.

The engagement approach is based on an understanding of the steps the client and practitioner deem sufficient to meet the objectives. This mutual understanding establishes the accountability for the tasks to be performed. In addition, if the tasks performed prove insufficient, then the practitioner and client can establish criteria to implement contingency plans or alternative procedures.

Roles. The roles of all parties to the engagement need to be clearly defined. The client needs to know which tasks the practitioner will perform and which tasks the client's staff will perform. If this is a cooperative engagement or one that involves regulatory agencies, all outside parties will need to have their roles defined. These outside parties include consultants other than the practitioner and those individuals who control and interpret regulatory authority. In this way both the client and the MAS

practitioner have direct knowledge of who is accountable for what actions. The communication method(s) the various participants will use, whether meetings or written reports, would also be stated.

Engagement review. The practitioner may wish to provide checkpoints during the engagement. An engagement review process provides for ongoing problem clarification and resolution. It establishes that the practitioner and the client may need to reach mutual decisions during the project in order to proceed. Special communications may be required if there are any major changes in the engagement's scope, objectives, approaches, or roles. It may also prove necessary to redefine each party's responsibilities because of modifications to the project. Preliminary engagement findings may require restructuring of the engagement. Accordingly, the client and practitioner may need to agree to—

- Modify the engagement.
- Continue the engagement.
- Expand the engagement to provide for the new circumstances.
- Note the new circumstances for future consideration.

Engagement output. The practitioner may wish to describe the engagement output (for example, reports or programs). This defines what the practitioner will provide to the client and may also define the output's impact on the client organization. The project outputs may be tangible, intangible, or both. Examples of tangibles are a system, a report, or a service developed through the engagement. Examples of intangibles are better employee awareness, better employee interaction, or improved employee attitude.

Anticipated results and benefits. The practitioner and the client may wish to discuss the possible results and potential benefits that may accrue from the engagement, even though engagement results cannot be guaranteed. If achieving the desired outcome appears doubtful, the practitioner may need to review and revise anticipated engagement benefits with the client.

Increased client awareness can help establish realistic expectations about project results. Total success of an engagement may depend on the actual occurrence of certain anticipated events. The practitioner may wish to inform the client of this. Such information may assist the client in evaluating the benefits of proceeding with the engagement.

Project staffing and scheduling. The practitioner may wish to inform the client of the expected start and completion dates of the engagement and to specify the client or practitioner personnel required. The success of the engagement assumes not only a spirit of cooperation and commu-

nication between the parties, but it also requires a clear understanding of each party's expected performance on the project and flexibility in dealing with contingencies.

Engagement completion. Client-practitioner understandings need to define when the engagement is considered complete. The parties may wish to identify specific events that would change the scope or modify the engagement.

Fees, billing arrangements, and payments. Documenting the fees, billing arrangements, and payments is important to client-practitioner communication and understandings. The practitioner may wish to explain the basis for consulting fees, such as hourly rates, fixed fees, or a guaranteed maximum. The practitioner may also wish to describe firm policy regarding fee accumulation, billing procedures, payment terms, and out-of-pocket expenses.

Engagement acceptance. Acceptance of the engagement by the client and practitioner is based on reaching a mutual understanding of the engagement's objectives, scope, and approach. Such acceptance also acknowledges the role of each party in the engagement. Acceptance of the understanding establishes engagement review procedures, project outputs, potential benefits and results, and personnel requirements. It provides for recognizing when the engagement is complete and acknowledges how the practitioner will be paid. Communication of acceptance signals that both the client and the practitioner are willing to begin the project.

PART TWO

SAMPLE CHECKLIST FOR MAS ENGAGEMENT UNDERSTANDINGS

MAS proposals and engagement letters need flexibility in content and format to meet the needs of the various engagements and circumstances possible in management advisory services. However, practitioners may find it useful to use a standard checklist in determining which elements of an MAS engagement understanding to include in each proposal or engagement letter. A sample checklist follows.

- I. Client background
 - A. Restatement of client history
 - B. Restatement of client-practitioner conversations
 - C. Restatement of client's perception of problem in client's words
- II. Engagement objectives
 - A. Practitioner understanding about problem
 - B. Practitioner understanding about methodology
 - C. Practitioner understanding about engagement outputs, in form of—
 - 1. Written report
 - 2. Oral proposal
 - 3. Vendor selection
 - 4. New system
 - 5. Other
- III. Engagement scope
 - A. Project areas
 - 1. Department_____
 - 2. Branch_____
 - 3. System(s)_____
 - 4. Other_____
 - 5. Explain work specifically excluded from the engagement
 - 6. Explain in detail all services included in the engagement
 - 7. Determine outside considerations on points of reference

- B. Time period from _____ to _____
 - C. Milestones (interim objectives or review points)
 - 1. Description _____
Time anticipated _____
 - 2. Description _____
Time anticipated _____
 - 3. Description _____
Time anticipated _____
 - D. Standards of performance
 - E. Professional practice considerations
- IV. Engagement approach
- A. Steps and their order
 - 1. _____
 - 2. _____
 - 3. _____
 - 4. _____
 - B. Schedule preparation
 - C. Documentation preparation
- V. Roles
- A. Client
 - B. Practitioner
 - C. Outside parties
- VI. Engagement review
- A. Establish checkpoints
 - B. Allow for possible changes in—
 - 1. Scope
 - 2. Objectives
 - 3. Roles
 - C. Provide for remedies
 - 1. Resolution procedures
 - 2. Responsibility for change
- VII. Engagement output
- A. Tangible end product
 - 1. Report
 - 2. System
 - 3. Product
 - 4. How client will use the output

- B. Intangible end product
 - 1. Improved employee awareness
 - 2. Improved employee interaction
 - 3. Improved employee attitude
- C. Supplemental or peripheral results
 - 1. By-products
 - 2. Human resources enhancement
- VIII. Anticipated results and potential benefits
 - A. Results
 - B. Potential benefits
 - C. Possible results short of stated goal
 - D. Possible ancillary benefits to client
 - E. Contingencies
- IX. Project staffing and scheduling
 - A. Anticipated starting date
 - B. Anticipated completion date
 - C. Client's staff involvement
 - D. Project staffing
 - E. Flexibility
 - F. Contingencies
- X. Engagement completion
 - A. Definition of project completion
 - B. Implementation of recommendations
 - C. Events that signal project termination
- XI. Fees, billing arrangements, and payments
 - A. Basis for accumulating fees
 - B. Estimate of total cost
 - C. Billing procedures
 - 1. Method
 - 2. Frequency
 - D. Payment terms
 - E. Out-of-pocket expenses
- XII. Engagement letter summation (closing)
- XIII. Space for client acceptance of engagement

PART THREE

SAMPLES OF WRITTEN ENGAGEMENT UNDERSTANDINGS

A written MAS engagement understanding may involve a proposal letter, a confirmation letter, an engagement letter, or a contract, as described in part 1. In some cases, more than one of these forms may be used in the same engagement. The samples that follow illustrate some of the differences that might occur in the four types of communication using the same engagement data. A practitioner determines which form or forms to use in a specific engagement by the way in which the engagement develops through contacts with the prospective client. The contract form is generally used when a government client is involved.

Sample Proposal Letter

[CPA Firm Letterhead]

June 15, 19XX

Mr. John L. Grimes, President
Volt Electronics, Inc.
9819 Jefferson Ave.
Chargeville, OR 99999

Dear Mr. Grimes:

As a result of our preliminary meeting last week, I am pleased to propose services to help you meet your company's inventory control needs.

The primary concern you expressed relates to the inventory mix, with its inability to respond to customer demand on a timely basis. You also expressed concern about the need for a system to document the transfer of inventory items between warehouses and other locations. In addition, you mentioned that five warehouses are still using the same physical layout as ten years ago, despite extensive changes in product lines and product sales during that period.

On the basis of our discussions, we believe Volt Electronics, Inc., would benefit from an automated inventory control system, which would incorporate the inventory transfers between warehouses and other locations. We believe you can use your existing computer and that available inventory control software can be modified to accomplish these goals. In addition, a review of the physical layout at the five warehouses is needed to determine if changes are necessary.

Engagement Scope and Approach

From our conversations with you and other members of the warehouse and inventory control department, we know that implementing a new system requires significant preparation. Certain system details, such as physical inventory flows and a new warehouse layout design, must be ready once the general system parameters have been prepared.

Our overall approach is to provide a step-by-step plan, which will enable us to identify issues and provide project leadership. To accomplish this, we will review your current facilities, procedures, and personnel. We will also interview your staff affected by the engagement. In addition, we will document the existing situation and its problems as well as the potential solutions. We propose to conduct the work in two phases, as described below.

Phase 1—Preimplementation Planning

In phase 1 we will develop a detailed list of tasks and propose timetables to complete them in order to implement your inventory control system. Essentially we will evaluate and advise, although we will also help develop and design the

engagement output. During the preimplementation planning phase of this project, we will do the following:

- Gather and analyze inventory data.
- Evaluate alternative methods of inventory analysis.
- Help prepare an inventory control plan.
- Help select and modify inventory control software.
- Gather and analyze existing transfer documents.
- Help develop the new transfer documentation system.
- Examine storage facilities, traffic patterns, and physical inventory flows in the five designated warehouses.
- Help design new warehouse layouts.

We expect you to do the following:

- Provide the necessary records or documents.
- Make your staff available for interviews and conferences.
- Cooperate with our staff in developing solutions.

Phase 2—Implementation Assistance

After concluding the preimplementation planning, we can provide implementation guidelines. In this regard, we suggest a second phase to our engagement. When we deliver our report, we can discuss our respective roles in implementing and training your personnel in using the improved forms, procedures, and systems. We would guide your personnel in implementing the system. This phase of the project includes the following tasks:

- Install the appropriate software modules.
- Enter historical data (for example, prior period balances).
- Enter budget data (for example, defective returns).
- Test the system.
- Develop reports from the structures defined in phase 1.
- Initiate "live" processing when satisfied with the results of the above tasks.

Once the modules are in place and operating properly, we also suggest a postimplementation review of the system. This review would assess the need for other system modules as well as enhancements to the existing modules.

Anticipated Results and Potential Benefits

If implemented and operated as anticipated, the new systems and warehouse layout could result in—

- Lower inventory levels.
- A more profitable sales mix.
- Less warehouse space needed.
- More efficient warehouse operations.
- Control over the physical inventory transfers.
- Provision for a perpetual inventory system.

Project Completion

The project's schedule is affected by anticipated software installation dates, as well as the ability of your personnel to allot time to the project. We urge that you initiate phase 1 immediately to expedite implementation. With the full cooperation and participation of your staff, we believe we can complete phase 1 in two to three weeks. Phase 2 will take a minimum of one month.

We will consider phase 1 concluded when we have completed all formulas, designs, and documents and presented them to you. At that time we will provide you with our report and our proposal to provide additional services, if desired. Assuming adequate participation by your management for approval of various planning components, we may be able to overlap portions of the second phase with the first. For example, once the transfer documents are developed, the data can be input into the system.

If, during the course of the engagement, either of us becomes aware of circumstances that would preclude a successful conclusion, either party may terminate the engagement by notifying the other party in writing.

Project Staffing

I will head the consulting team and be responsible for the overall management of the engagement. Neal Newley, a senior staff consultant, will be responsible for the engagement's day-to-day conduct.

Project Costs

We base our consulting fees on time actually spent at our standard billing rates, plus any out-of-pocket expenses at cost. We estimate that the first phase of the project will amount to \$XX,XXX, depending on the degree of involvement by your personnel. Should anything arise that would adversely affect the performance of the engagement in the prescribed time or within the aforementioned fee range, we will inform you immediately.

If the foregoing is acceptable to you, please return a signed copy of this proposal to me to confirm the engagement. We appreciate the opportunity to present our proposal for your consideration. We believe that we can be of significant assistance to you and welcome the opportunity to do so. If you have any questions regarding this proposal, please do not hesitate to call me.

Sincerely,

Ray Richards, CPA

Accepted by _____

Date

Sample Confirmation Letter

[CPA Firm Letterhead]

June 30, 19XX

Mr. John L. Grimes, President
Volt Electronics, Inc.
9819 Jefferson Avenue
Chargeville, OR 99999

Dear Mr. Grimes:

We are pleased and enthusiastic that you have accepted our proposal to assist in improving Volt Electronic's inventory management systems. Our engagement will include the items set forth in our proposal letter dated June 15, 19XX.

Upon concluding the initial phase of the engagement, we can provide implementation guidelines. In this regard, we suggest a second phase to our engagement. When we deliver our report, we can discuss our respective roles in implementing and training your personnel in using the improved forms, procedures, and systems. Our proposal to provide additional services, if desired, will be submitted at that time.

Please acknowledge your acceptance by signing this letter and returning one copy to us together with your check for \$X,XXX. Thank you for retaining us. We hope this will be the beginning of a long and mutually beneficial relationship.

Sincerely,

Ray Richards, CPA

Approved _____
President

Date

Sample Engagement Letter

[CPA Firm Letterhead]

June 25, 19XX

Mr. John L. Grimes, President
Volt Electronics, Inc.
9819 Jefferson Avenue
Chargeville, OR 99999

Dear Mr. Grimes:

I appreciated the opportunity to meet with you and your associate, Jim Watts, regarding your company and its inventory control system. You expressed a desire for an improved inventory mix, better warehousing, and greater control over inventory transfers. This letter outlines our understanding of the agreement we reached to assist you in meeting your company's inventory control needs.

Engagement Objectives

The objective of our engagement is to provide you with recommendations for (1) improving your inventory mix, (2) creating a new physical layout for the five warehouses, and (3) establishing a transfer-documentation system.

Engagement Scope

The scope of the engagement will involve those company operations dealing with inventory analysis and handling. We will include the five warehouse locations and branches in the engagement. The engagement will last four weeks. It is scheduled to begin on July 1, 19XX, and end on July 31, 19XX. We should complete the inventory mix portion of the engagement in one week, the warehousing portion in two and a half weeks, and the transfer system in four weeks.

We will perform all work in accordance with the Statements on Standards for Management Advisory Services promulgated by the American Institute of Certified Public Accountants.

Engagement Approach

We will review your current facilities, procedures, and personnel. We will also interview your staff affected by the engagement. In addition, we will document the existing situation and its problems as well as the potential solutions.

Roles

To efficiently complete the engagement, both parties need a clear understanding of their respective roles. Our firm's role is essentially one of evaluating

and advising, although we will be involved in developing and designing the engagement output. Our firm will do the following:

- Gather and analyze inventory data.
- Evaluate alternative methods of inventory analysis.
- Assist in preparing an inventory control plan.
- Examine storage facilities, traffic patterns, and physical inventory flows in the warehouse.
- Assist in designing a new warehouse layout.
- Gather and analyze existing transfer documents.
- Assist in developing the transfer-documentation system.

Your company will do the following:

- Provide the necessary records or documents we request.
- Make your staff available for interviews and conferences.
- Cooperate with our staff in developing solutions.

Engagement Staffing and Scheduling

As we stated earlier, the project will begin on July 1, 19XX, and we expect to complete it in four weeks. During this period your staff will be involved as much as possible, especially your warehouse foreman and yourself to some degree. The more involved your staff is, the easier it will be for them to adapt to the proposed changes.

I will supervise the consulting engagement. Neal Newley, who has conducted many similar projects over the last ten years, will be in charge of the fieldwork.

Engagement Review

Each week during the engagement, we will meet with you to discuss the progress made. If there has been any difficulty, or if changes to the engagement's scope or objectives have become necessary, we can determine revisions to the engagement plan and agree on them.

Engagement Output

Our report to you will include detailed recommendations for—

- An inventory analysis system.
- A new warehouse layout.
- A transfer-documentation system.

If applicable, we will present other recommendations based on our findings for your consideration.

Anticipated Results and Potential Benefits

If implemented and operated as anticipated, the new systems and warehouse layout could result in—

- Lower inventory levels.
- A more profitable sales mix.

- Less warehouse space needed.
- More efficient warehouse operations.
- Control over the physical inventory transfers.
- Provision for a perpetual inventory system.

Project Completion

We will consider the project concluded when we have completed all formulas, designs, and documents and presented them to you in our report.

If, during the course of the engagement, either of us becomes aware of circumstances that would preclude a successful conclusion of the engagement, either party may terminate the engagement by notifying the other party in writing.

After concluding the preimplementation planning, we can provide implementation guidelines. In this regard, we suggest a second phase to our engagement. When we deliver our report, we can discuss our respective roles in implementing and training your personnel in using the improved forms, procedures, and systems. If desired, we will submit our proposal to provide additional services at that time.

Fees, Billing Arrangements, and Payments

We base our fees for this engagement on the time spent at our standard hourly rates. The estimated cost of the project is \$XX,XXX. A retainer of \$X,XXX is due on your acceptance. We will bill the remainder of the fee on August 31, 19XX, and we expect payment by September 15, 19XX. We will bill any out-of-pocket costs, such as transportation, material, or subcontractor consultants, in addition to our fees.

Please acknowledge your agreement by signing this letter and returning one copy to us, together with a check for \$X,XXX. Thank you for retaining us. We hope this will be the beginning of a long and mutually beneficial relationship.

Sincerely,

Ray Richards, CPA

Approved by _____
President

Date

**Sample Contract to Provide Professional Services
Between Client County and Practitioner**

This contract is made by and between the Client County, hereinafter referred to as "Client County," and the practitioner, Ray Richards & Company, CPAs, hereinafter referred to as the "Consultant."

WITNESSETH:

WHEREAS, Client County wishes to retain professional services to obtain recommendations concerning ways in which Client County might improve its inventory control system; and

WHEREAS, the Consultant has demonstrated a professional capacity and expressed a desire to provide Client County with such professional services;

NOW THEREFORE, in consideration of the mutual promises and agreements contained herein, the parties agree as follows:

I. WORK PLAN

The Consultant agrees to perform the work plan contained in its proposal to Client County which is made a part of this contract. In addition to the work plan set forth in attachment A, the Consultant agrees to perform a sufficient number of county site visits to ascertain the inventory control needs of Client County.

II. BUDGET

The Consultant agrees to perform the work plan contained in attachment A and guarantees the total cost for the duration of this contract. The total cost of the project to be billed to Client County shall not exceed \$XX,XXX.

III. PRODUCTS

All products produced under this contract shall be in the public domain. The Consultant agrees to deliver all outputs listed in attachment A in accordance with the timetables contained therein.

IV. BILLINGS

Client County agrees to pay the Consultant in two (2) monthly installments according to the following schedule.

First payment, July 31, 19XX

Final payment, September 15, 19XX (August, or last, payment shall be withheld until all outputs listed in attachment A are accepted by Client County.)

V. OTHER CONDITIONS

A. Entire Agreement: Requirement of a Writing. It is understood and agreed that the entire agreement of the parties is contained herein and as authorized in the engagement letter, and that this Agreement supersedes

all oral agreements and negotiations between the parties relating to the subject matter hereof as well as any previous agreement presently in effect between the parties relating to the subject matter hereof.

Any alterations, amendments, deletions, or waivers of the provisions of this Agreement shall be valid only when expressed in writing and duly signed by the authorized representatives of the parties.

- B. Nonassignment. The Consultant shall not assign any interest in this Agreement without the prior written consent of Client County thereto, provided, however, that claims for money due or to become due to the Consultant from Client County under this Agreement may be assigned to a bank, trust company, or other financial institution without such approval. Notice of any such assignment or transfer shall be furnished promptly to Client County.
- C. Conflicts of Interest. The Consultant covenants that it presently has no interest and shall not acquire any interest, direct or indirect, that would conflict in any manner or degree with the performance under this Agreement. The Consultant further covenants that in the performance of this Agreement, no persons having any such conflicting interest shall be employed.
- D. Subcontracting. None of the work or services covered by this Agreement shall be subcontracted without prior written approval of Client County.
- E. Expenses Incurred. No payments shall be made under this Agreement for any expenses incurred in a manner contrary to any provision contained herein or in a manner inconsistent with any federal, state, or local law, rule, or regulation.
- F. Independent Contractor. For the purposes of this Agreement, the Consultant shall be deemed an independent contractor, and not an employee of Client County. Any and all employees, members, or associates of the Consultant or other persons, while engaged in the work or services required to be performed by the Consultant under this Agreement, shall not be considered employees of Client County, and any and all claims that may or might arise on behalf of said employees shall in no way be the obligation or responsibility of Client County.
- G. Indemnification. The Consultant shall defend and save Client County harmless from any claims, demands, actions, or causes of action arising out of any negligent act or out of any negligent omission on the part of the Consultant, its agents, servants, or employees in performance of or with relation to any of the work or services provided to be performed under the terms of this Agreement.
- H. Insurance. The Consultant further agrees that in order to protect itself as well as Client County under the indemnity agreement provision set forth above, it will at all times during the term of this Agreement have and keep in force:
 - (1) A single limit or combined limit or excess umbrella automobile liability insurance policy, if applicable, covering agency-owned, nonowned, and hired vehicles used regularly in the provision of services under this agreement, in an amount of not less than five hundred thousand dollars (\$500,000.00) per accident for property damage, five hundred

thousand dollars (\$500,000.00) for bodily injury and/or damages to any one person, and five hundred thousand dollars (\$500,000.00) for total bodily injuries and/or damages arising from any one accident.

- (2) A combined limit or excess umbrella general liability insurance policy of an amount not less than three hundred thousand dollars (\$300,000.00) for property damage arising from one occurrence and three hundred thousand dollars (\$300,000.00) for total bodily injury and/or damages arising from one occurrence.
- (3) Worker's compensation insurance, if applicable.
- (4) Any policy obtained and maintained under this clause shall provide that it shall not be canceled, materially changed, or allowed to lapse without thirty (30) days prior notice thereof to Client County.
- I. Severability. The provisions of this Agreement are severable; if any paragraph, section, subdivision, sentence, clause, or other phrase of this Agreement is for any reason held to be contrary to the law, or contrary to any rule or regulation having the force and effect of law, such decision shall not affect the remaining provisions of this Agreement.
- J. Governing Laws. The laws of the State of _____ shall govern as to the interpretation, validity, and effect of this Agreement.
- K. Nondiscrimination. In carrying out the terms of this Agreement, the Consultant shall not discriminate against any employee, applicant for employment, or other person, supplier, or contractor because of race, color, religion, sex, marital status, handicap, national origin, or public assistance.
- L. Whereas Clauses. The matters set forth in the "Whereas" clauses on page one (1) hereof are incorporated into and made a part of this Agreement.
- M. Paragraph Headings. The paragraph and subparagraph headings used in this Agreement are for reference purposes only and shall not be deemed to be a part of this Agreement.

VI. DURATION

The duration of this Agreement shall be May 19, 19XX, to October 31, 19XX, inclusive.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed.

Client County

by _____
Practitioner

Date

PART FOUR

SAMPLE PROPOSAL AND ENGAGEMENT LETTERS

The following sample letters are adapted from previously published MAS practice aids and other AICPA publications. The letters illustrate the diversity of MAS engagements and the flexibility in letter format and content necessary in communicating understandings to clients. There is no standard format or language. There is only a list of information elements a practitioner needs to consider when preparing an individual letter. Individual practitioners or firms may, of course, establish standard or preferred formats and language for their own guidance when preparing letters.³

3. See "Understanding With Client in MAS Engagements," in Statement on Standards for Management Advisory Services No. 2, *MAS Engagements* (New York: AICPA, 1982), paragraph 17.

**Sample Proposal Letter—Economic Feasibility Study
for a Restaurant**

[CPA Firm Letterhead]

December 13, 19XX

Ms. Irene Wiener
204 Sawyer Avenue
Holtsville, New York 11777

Dear Ms. Wiener:

Thank you for your letter of December 8, inviting us to propose an economic feasibility study for a fast-food restaurant you plan to establish in downtown Holtsville.

Our study would include, but not necessarily be limited to, the following procedures. We would—

1. Meet with you before starting fieldwork to discuss the project in depth.
2. Conduct a market study in downtown Holtsville to determine markets for a fast-food restaurant. Our study would be sufficient in scope to enable us to recommend the size and type of facilities that could be established and to analyze competition for such a project.
3. Conduct a brief site survey in those areas of downtown Holtsville that our market study indicates offer maximum potential for development of a fast-food restaurant. We would attempt to identify a number of available sites and would investigate the suitability of each in terms of public access and visibility.
4. Prepare projections of operating income and expenses for various sales levels. Based on these projections, we would estimate a reasonable maximum investment and the economic feasibility of the project.
5. Submit a written report of our findings, conclusions, and recommendations concerning the project.

Our report and financial projections will be based on estimates, assumptions, and other information available to us during our study, whose sources and bases will be stated in the appropriate sections of the report.

Since our report and financial projections will be based on estimates, assumptions, and forecasts whose reliability depends on future events, and whose validity we cannot vouch for, we will be precluded from expressing an opinion on them. After one year our report will be subject to revision of any material changes in the economic or market factors in the metropolitan area.

Our report and financial projections will be intended solely for the developers, except that a complete copy of the report may be submitted to a lending institution along with other documents to support a mortgage financing application. Otherwise, neither the report nor its contents could be referred to or quoted in any

registration statement, prospectus, loan, or other agreement or document without our prior written consent.

We expect the fee for these services to be \$X,XXX to \$X,XXX based on actual hours worked plus out-of-pocket expenses. In accordance with our firm's policy, an advance of \$X,XXX is payable before we can begin our study. The balance is payable upon presentation of our report.

If our study of the first three points leads us to a negative conclusion, we would advise you and meet with you to discuss our findings. If the decision is then made to discontinue our study, our fee would be based on actual hours worked, and it would not exceed \$X,XXX.

Present commitments would allow us to begin the study within four weeks after receipt of this proposal. We anticipate that we could complete our report approximately five to six weeks thereafter.

We appreciate the opportunity to submit this proposal. Please contact us if you have any questions about our study. If this proposal is satisfactory, please sign the enclosed copy and return it to us, together with a check for \$X,XXX as authorization to proceed with the engagement.

Sincerely,

Swift, March & Company

Partner

Approved by _____

Date

Sample Proposal Letter—Cost Accounting

[CPA Firm Letterhead]

February 22, 19XX

Mr. Gregory Allen, President
Steel Supply Company
Minneapolis, Minn. 55400

Dear Mr. Allen:

On February 20, I spent the day at your office to make a general review of the company's job costing and estimating procedures, purchasing and inventory control systems, production scheduling, control and follow-up activities, office and accounting systems and procedures, and management reporting systems. The objective of the visit was to permit us to identify problem areas and formulate a work program for correcting them.

In brief, we found many elements of successful estimating, cost accumulation, and control and reporting systems, but they are fragmented and do not provide the required control or information. These elements must be modified, refined, and coordinated with new procedures to establish a well-defined, interrelated system to serve management.

We propose to make a detailed study of the office and accounting systems and procedures for the above problem areas and recommend improvements. In the proposed engagement, we will work with company personnel to do the following:

- Review in depth the present cost accumulation and accounting procedures.
- Define the elements of cost and the methods of determining usage.
- Analyze the company's costs to determine which can be assigned directly to a job and which must be considered overhead.
- Examine the nature of the costs and their relationships to other company activities. For instance, does a particular cost vary with the level of production or sales activity; is it related to the movement of another cost; is it fixed; and so on?
- Review the estimating procedures.
- Analyze the procedures for purchasing, inventory control and the release of inventory to the jobs.
- Review the procedures for production scheduling and follow-up.
- Determine the job status and financial information that management requires.
- Review projections of sales and costs for the coming year.

- Recommend procedures to accumulate costs and record them on job sheets or cards. Design a job-cost form and determine whether the bookkeeping machine should be used with it.
- Calculate overhead rates and determine the bases and frequency of applying the cost-recording format.
- Recommend procedures for estimating jobs, compatible with the cost-recording format, and design a functional estimating form.
- Recommend procedures for administering the purchasing activities and for inventory control and material release.
- Recommend procedures for scheduling follow-up on jobs in production.
- Develop procedures to compare the estimated job costs to those actually incurred to evaluate job status and to report periodically to management while the jobs are in progress.
- Recommend methods for reconciling information on the cost records to the company's accounting records.

We will then review the recommended procedures with management and with designated personnel and will submit a report on our findings and recommendations.

We believe that the study we have described and the resulting procedures and other recommendations will provide you with the coordinated, current information you need to better control and evaluate your operation. You should be able to isolate problems on a particular job in time to correct them. You should also be able to determine whether excessive job costs, compared to the estimates, are the fault of the operations or the estimates. Thus you could refine your estimating techniques.

Our management advisory services fees are based on the time we devote to an engagement. We will attempt to keep our time to a minimum by working closely with company personnel. We estimate that our fee for this study will be from \$X,XXX to \$X,XXX plus out-of-pocket expenses. This fee depends on the availability of your personnel to work with us and provide needed information, much of which they should accumulate before the start of the engagement. We will discuss any unforeseen problems with you as they arise. Billings will be rendered monthly. Our invoices are payable on presentation. Our firm policy requires a retainer of \$X,XXX, to be applied against the final billing.

The quoted fee does not include the implementation of any recommended systems and procedures. As stated above, we will submit a report and review the procedures with your personnel. Any future work to help your personnel convert to and operate the new systems would be a separate engagement.

We should be able to start the engagement three weeks after receiving your acceptance. We anticipate completing the study within three weeks after we start.

If you would like us to proceed with this engagement, please acknowledge your acceptance by signing this letter and returning one copy to us, together

with your check for \$X,XXX. If you have any questions about this proposal, we will be pleased to discuss them with you.

Sincerely,

Swift, March & Company

Partner

Approved by _____

Date

Sample Proposal Letter—EDP Feasibility Study

[CPA Firm Letterhead]

April 19, 19XX

Ms. Deborah West, President
The ABC Realty Company
1066 Norman Road
Saxony, Pennsylvania 16678

Dear Ms. West:

We have completed a preliminary survey of your office systems and procedures, primarily for the building management operation. The objective of this general survey was to permit us to formulate a work program for a detailed study of those systems and procedures.

The need for a single accounting system and the number of buildings now being managed by the company make it appropriate that the company's data processing requirements be evaluated at this time. We propose, therefore, a feasibility study for a more sophisticated data processing system. In this study we will do the following:

- Examine in detail the present office and accounting systems and procedures for building management. These include the receipt of rent from the tenants, the control and follow-up of late payments and delinquencies, the cash disbursements, and the statements submitted to the owners.
- Review the number of transactions for each of these procedures and their frequency.
- Determine with you, and others you designate, the frequency, timing, and content of statements and other reports that the company wishes to provide to the owners.
- Meet with designated members of management to hear their view of the above reports as well as their requirements for information on the building management operations.
- In these discussions, we will also consider other information requirements, such as cash flow forecasts and project evaluation—the *what-if* analyses in which different sets of variables can be applied within defined parameters.
- Develop the general data processing concept to meet the accounting and information requirements of the company.
- Meet with representatives of specific equipment manufacturers (and of data processing systems if use of a service bureau is considered), discuss our systems concepts with them, and provide them with specifications so that they may prepare comprehensive proposals.

- Review and evaluate the above proposals.
- Provide you with a report in which we will recommend the type of system and equipment required for the company, review the benefits for the company, review the benefits of the proposed system, and estimate the cost to install and operate the proposed system.

Our management advisory services fees are based on the time we must devote to an engagement and will be calculated at an average rate of \$XX per hour plus out-of-pocket expenses. We will attempt to keep our time to a minimum by working closely with company personnel and with representatives of equipment manufacturers. We estimate that the fee for the above services will be from \$X,XXX to \$X,XXX. Of course, if our time expended is less than our estimate, you will be billed less. This estimate does not include our participation in the installation of any equipment we recommend. That would be a separate engagement, the scope of which would depend on the type of system recommended. Billings will be rendered every two weeks; our invoices are payable upon presentation. We will require a \$X,XXX retainer to be applied against the final billing.

We will be available to start this engagement within two weeks after receiving your approval. We expect the study will take from four to six weeks, depending on the delays we encounter from the equipment manufacturers.

If you wish us to proceed, please sign this proposal and return one copy to us as our authorization, together with a check for \$X,XXX. I will be pleased to answer any questions you may have.

Sincerely,

SWIFT, MARCH & COMPANY

Partner

Approved by_____

Date

Sample Engagement Letter—Business Valuation

[CPA Firm Letterhead]

March 4, 19XX

Ms. Irma Prescott, President
Enterprises, Ltd.
1503 Poplar Street
Anytown, USA

Dear Ms. Prescott:

This letter confirms the terms of our engagement and the nature of the services I will provide. I will prepare a valuation of J.D. Distributors as of December 19X5 for use in negotiating the sale of the company. I will base the valuation on the most probable quantitative valuation and will present a range of values after considering various general factors normally used in the process. I will rely on the information submitted to me by J.D. Distributors and your management as being true, correct, and complete.

If necessary and pertinent to the valuation process, you authorize me to compile a cash flow forecast and summaries of significant assumptions and accounting policies as of December 31, 19X5, and for the five years ending December 31, 19X5, based on the information and representations provided by the management of J.D. Distributors as adjusted for your representations of your financial needs. I will not express any form of assurance on the likelihood of achieving the forecast or on the reasonableness of the underlying assumptions and representations.

The compilation of cash flow forecast data will be presented as an appendix to the valuation report, and the compilation is not intended to be used separately.

The cash flow forecast is management's estimate of the most probable financial position, results of operations, and changes in cash position for the forecast period. It is based on management's assumptions, reflecting the most likely set of conditions and its most likely course of action. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results achieved during the forecast period will vary from the forecast, and the variations may be material. My report will contain a statement to that effect. I have no responsibility to update my report for events and circumstances occurring after the date of my report.

My fee for these services will be \$_____ plus out-of-pocket expenses payable as follows: 50 percent on execution of this agreement and the balance on submission of my report.

Please indicate your approval of these arrangements by signing this letter in the space provided and returning one copy to me.

Sincerely,

John Smith, CPA

Approved by _____
Irma Prescott, President
Enterprises, Ltd.

Date

Sample Engagement Letter—Obtaining Financing

[CPA Firm Letterhead]

February 20, 19XX

Mr. Dave Simpson, President
Atlas Manufacturing Corporation
Smithville, Ohio 44114

Dear Mr. Simpson:

This letter outlines our understanding of the arrangements we made in your office yesterday relative to assisting Atlas Manufacturing Corporation in obtaining new financing.

Nature and Scope of Work

We shall perform a study of Atlas Manufacturing's needs and the underlying reason(s) for these needs. Based on the study, we shall advise you concerning the sources of funds and methods of financing most appropriate to your needs. We shall assist you in evaluating the alternatives and in choosing the source and method best suited to you.

Having determined the amount needed, the purpose, the source, and the method, we shall assist you in preparing a business plan and the other documents necessary to make an effective presentation of your needs to the financing source.

We will assist you in the presentation and negotiation of the financing terms and conditions, as necessary.

Roles

To provide an effective framework for this engagement, both parties must have a clear understanding of their respective roles. Our role encompasses—

- Gathering data about the history and finances of the business.
- Analyzing the business's financial requirements.
- Identifying sources and methods of financing suited to your needs.
- Assisting in evaluating the financing sources and methods.
- Assisting in preparing business plans.
- Assisting in preparing the financing application package (documents).
- Assisting in presentation of the application package and in negotiation of terms and conditions.

Your role encompasses—

- Providing financial and other records and data that we request.
- Making your key people available for interviews and conferences.
- Making timely decisions on the various aspects of this engagement as it progresses.
- Cooperating with our staff in developing the business goals and objectives necessary to prepare a workable business plan.

Our role is essentially one of assisting, evaluating, and advising; while we will exert our best effort, we offer no assurance that financing will be obtained.

Results and Benefits

The tangible results of this engagement will be (1) a written business plan, which clearly defines the goals of the business and outlines the manner in which they are to be achieved and (2) the financing or funding package necessary for adequate presentation of your needs to a financing source. The intangible results of this engagement should include a better understanding of goals by key management personnel and a better understanding of the opportunities and challenges facing the business and the resources available for dealing with them.

Timing and Duration

We are beginning work on this engagement immediately and expect to complete the engagement in approximately ten weeks. This timetable assumes adequate cooperation on the part of your personnel and the ready availability of the information and data required for the preparation of the various documents required by the engagement.

Engagement Completion

We will consider the engagement concluded when all documents necessary for the funding needs presentation are complete and a best-effort presentation has been made. We will provide you with a letter at this time advising you that the engagement is complete. If funding is not received after this presentation and you wish us to assist you in presentations to alternate sources, you may extend this engagement by notifying us of your intent in writing.

If, during the course of the engagement, either of us becomes aware of facts or circumstances that would preclude a successful conclusion of the engagement, one party may terminate the engagement by notifying the other party in writing.

Fees and Payments

Our fees for this engagement are \$X,XXX, based on time expended at our standard hourly rates. Any out-of-pocket expenses will be billed in addition to our fees. Our normal practice is to issue invoices monthly for the fees and expenses incurred as the work progresses. Our invoices are payable on receipt.

Conclusion

If any part of this letter differs from your understanding of this engagement, please notify us at once so that we can establish a proper mutual understanding. We appreciate this opportunity to serve Atlas Manufacturing Corporation and look forward to a mutually profitable association.

Sincerely,

Jack Todd, CPA

Approved by _____

Date

Sample Engagement Letter—Business Planning

[CPA Firm Letterhead]

July 15, 19XX

Mr. William White, President
Cabletown Industries, Inc.
Cabletown, USA

Dear Mr. White:

This letter confirms our understanding of the services we will perform for Cabletown Industries, Inc. We will conduct a planning session on October 12, 19X5, to be held at our office in Fairview. The following representatives of Cabletown are scheduled to attend:

- William White, president
- Joseph Gordon, controller
- Carrie Simmons, marketing director
- Harold Blake, production manager

Although we have gained knowledge of your organization and operations through previous engagements, we request that you provide us with certain additional information so that we can better prepare for the meeting. The information we need is as follows:

1. An organizational chart
2. A list of personnel
3. Financial statements for the last three years
4. Product sales by division for the last two years

We will perform the function of informed moderator at the planning session and will contribute to the discussions as appropriate. The benefits derived from the planning session, including possible recommendations, depend on the activities of the participants and your follow-up efforts. To aid your follow-up, we will prepare minutes of the session, which can be used in developing a plan to implement adopted recommendations.

Our estimated fee for the engagement is \$X,XXX to \$X,XXX, based on our standard hourly billing rates. Any out-of-pocket expenses will also be billed.

If this letter accurately describes your understanding of the services we are to perform for Cabletown Industries, Inc., please sign and date it and the enclosed copy, and return the copy to us.

Sincerely,

David Jenkins, CPA
Partner
CPA & Company

Accepted by _____
William White
Cabletown Industries

Date

Sample Engagement Letter—Purchasing/Receiving System Equipment

[CPA Firm Letterhead]

October 10, 19XX

Mr. William Griff
Osgood Products, Inc.
Fairview, USA

Dear Mr. Griff:

This letter contains the understanding of our engagement to assist you in planning and designing a computerized purchasing and receiving system. We believe the following will permit you to achieve your objectives.

Engagement Objectives

The objectives of our engagement will be as follows:

- Conduct a study and document the requirements of a computerized purchasing and receiving system providing purchase orders, receiving reports, vendor evaluation, and cash requirement forecasting.
- Identify EDP systems design alternatives and select the most advantageous for further study.
- Document the general work flow of the proposed system; the types and frequency of inputs and outputs; and the equipment, software, personnel, and other resources necessary to convert and operate the system.
- Identify special conversion considerations.
- Communicate findings, recommendations, and overall schedules and budgets covering subsequent phases.

Engagement Scope

The scope of this engagement will include the planning and general design of a computerized purchasing and receiving system. This system will utilize existing sales forecasting and inventory systems to produce purchase orders, receiving reports, vendor evaluation reports, cash requirement reports, and input to the inventory system. The design will include purchasing and receiving functions performed within the purchasing and receiving department in the XYZ facility only and will not include changes to the inventory system. The inventory system must be revised to accommodate input from the purchasing and receiving system, but such changes are not part of this engagement.

Engagement Approach

This engagement will undertake system planning and general design in a two-phase approach. Steps in the system planning phase include—

- Organizing and defining members of the project team and identifying their specific responsibilities.
- Gathering additional data related to the current system and system requirements by interviewing key personnel and users.
- Reviewing relevant documentation covering system plans, procedures, and current system costs and deficiencies related to the system under study.
- Planning in detail the tasks to be performed during system planning and reviewing them with the project team.
- Identifying deficiencies related to the system under study.
- Identifying requirements and classifying them in terms of must have and like to have.
- Developing criteria for the system to be designed.
- Identifying major systems design alternatives.
- Preparing and presenting findings and recommendations.

Steps in the general design phase include—

- Planning in detail the tasks to be performed during general design and reviewing them with the project team.
- Assisting in the selection of those alternatives most feasible for further study.
- Preparing a general work flow indicating generic types of input and output for the selected alternatives.
- Determining the resources and costs required to implement, convert, operate, and maintain the selected alternatives. (Needed resources would include equipment, personnel, and software; cost considerations would include recurring costs as well as site preparation, forms, file conversion, education and training, and other pertinent cost factors.)
- Preparing a comparative analysis of selected alternatives versus the criteria selected in the earlier stage and presenting recommendations.

Engagement Output

The output of these two phases would be a documentation manual for each system, which would contain the following elements:

- A general system flowchart
- Sample reports and transaction documents
- Tentative file descriptions
- A general system development plan showing development priorities and the time frame in which the system can be realistically developed.

Project Staffing and Schedule

Horace Jones of our staff is experienced in systems planning and design and will conduct the engagement. The engagement will commence on June 30 and will require about two weeks to complete.

Fees and Billing Arrangements

Our fees for this engagement are based on standard rates for actual time spent on the engagement plus out-of-pocket expenses. We estimate that the fees for providing the service described in this letter will be between \$X,XXX and \$X,XXX. A retainer of \$XXX is required. We will bill you monthly for the balance of the fee.

Please let me know if you have any questions. We look forward to working with you.

Sincerely,

Arthur Bell, CPA
Partner
Bell and Bell, CPAs

Accepted by _____
William Griff
Osgood Products, Inc.

Date

Sample Engagement Letter—Financial Model

[CPA Firm Letterhead]

October 12, 19XX

Mr. James R. Broadview
Vice-President, Finance
The Practical Machine Company, Inc.
1234 West Fifth Street
Ourtown, USA

Dear Jim:

It was good to discuss your company's financial planning needs with you and your associates in last Monday's meeting. You expressed a desire to link your several departmental planning documents together into an overall financial planning model. This letter defines the scope and objectives of an engagement to develop such a model and describes our approach to accomplishing the work we discussed.

Engagement Objectives

The objectives of the engagement will be to—

- Create, test, and run a computerized financial model of the Practical Machine Company's operations, financial condition, and cash flow for the five yearly periods ending 19XX, using assumptions that have been provided by company management.
- Test the results of several alternative sets of assumptions regarding corporate policies and environmental conditions.
- Provide sufficient documentation and training to enable company personnel to update the model annually, in light of subsequent experience and planning.

Engagement Scope

We will develop a financial model for the Practical Machine Company according to the requirements developed in the approach. The engagement will be concluded with delivery of the items listed in the engagement output session.

The scope of the assignment will include the entire range of company operations and finances, based on the present accounting system and policies augmented by applicable statistical data, all approximately condensed into a manageable but useful set of categories.

Engagement Approach

Our approach to meeting the objectives of the engagement will be to—

- Analyze the trends, ratios, and volumes in the major areas of company activity, as reflected in the accounts and statistics for recent years.
- Select the appropriate categories and relationships to be included in the model.
- Construct, test, and run the model a sufficient number of times to meet the previously defined requirements criteria.
- Run the model x times to permit management to select a definitive set of planning assumptions.
- Train your personnel in the sources of planning data, the working of the model, and the manner of making changes to reflect subsequent history and revised planning factors in subsequent years.

Engagement Output

There will be two principal end products of this assignment—

1. A user guide for the model, and when applicable, software documentation.
2. A list of the computer model inputs consisting of the categories (variables) used, the data supplied, the calculation equations, and the resulting output consisting of the three principal projected financial statements.

Additional material deliverable at the end of the assignment will be copies of worksheets showing the statistical derivations of the trends, ratios, and planning equations.

Benefits

As a result of this engagement, the Practical Machine Company will have the ability to prepare a documented set of financial plans to serve as the basis for developing detailed budgets and for advising your board of directors and your bank of the status and results of management's broad financial planning.

Project Schedule and Staffing

We expect the project to require approximately six weeks to complete. This permits time for management to review, discuss, and modify intermediate results. During the period, we would want to involve your people as much as possible—especially Joe Jackson (about 40 percent of his time) and yourself to some extent. The more your people can learn about the integration of department planning, and the more we can help them understand the interactions of the various planning segments, the more your company will benefit from our involvement.

The consulting engagement will be supervised by Paul Parker. Sam Stevens will be in charge of the fieldwork and will utilize qualified consultants from our staff in the technical aspects of the work. Sam has personally conducted similar projects for clients in a variety of industries. As we discussed with you, we plan to begin the engagement on _____, 19XX.

Fees and Billing Arrangements

We estimate the fees for our services will be between \$X,XXX and \$X,XXX. In addition, the out-of-pocket costs for computer time are estimated at \$X,XXX to \$X,XXX. This estimate is based on the assumption that you, Joe Jackson, and other employees will be reasonably available to work with us. If, for any reason, we find more time, and thus expense, is required, we will confer with you before proceeding further. If less of our time than anticipated is required, charges for our services will be less. We bill monthly for our management advisory services engagements at our standard monthly rates for expenses at actual cost.

Please let me know if you have any questions. Your signature on one copy of this letter will serve as our authorization to commence the project.

Sincerely,

CPA & Company

Accepted by _____
For the Practical Machine
Company, Inc.

Date

Sample Engagement Letter—Financial Ratio Analysis

[CPA Firm Letterhead]

September 22, 19XX

Mr. Bennet Allen
Allen Manufacturing
Belltown, USA

Dear Mr. Allen:

Our firm is very pleased to assist you by providing the services we discussed at your office last week. We will conduct an engagement to investigate your financial position through an in-depth analysis of key financial ratios.

Engagement Objectives

The objectives of this engagement are to do the following:

- Conduct a historical and comparative financial ratio analysis of your firm.
- Prepare a narrative report indicating any positive or negative trends based on the interpretation of financial ratios.
- Provide the findings of the analysis, including all supporting notes and assumptions.

Engagement Scope

This engagement is to provide a four-year historical and comparative financial ratio analysis. The ratios will include those ratios published by the comparative source and those ratios commonly used for credit analysis (see attachment). Selection of the comparative source will be based on the closest match with your industry's SIC code. Your personnel will be relied on to provide average balances for specified accounts.

We will comment on the historical trends and comparative nature of each ratio and make recommendations for improvement, where appropriate. The engagement will conclude with an in-person presentation of a report and discussion of its contents.

Engagement Approach

This engagement will undertake financial ratio analysis in a two-phase approach. Steps in the preparation phase include—

- Meeting with appropriate management personnel to identify objectives and key ratios.
- Reviewing required financial statements.
- Determining the comparative to be used (with management assistance).

Steps in the analytical phase include—

- Selecting the specific ratio to be used.
- Determining the data needed for calculating ratios.
- Determining the missing comparative data and providing alternative means to develop the missing data.
- Calculating your firm's ratios.
- Reconciling accounting differences between your firm's financial statements and those of the comparative.
- Comparing your firm's ratios to the comparative ratios, indicating possible causes of differences.
- Recommending, if appropriate, possible corrective action that your firm may take to improve performance.

Engagement Output

The output of this engagement will contain the following—

- A one-page summary of findings.
- The historical ratios.
- The comparative ratios.
- Comments on the trend and interpretation of each ratio.
- If appropriate, recommendations based on the findings will be given.

Project Schedule and Staffing

I have conducted many previous financial ratio analysis engagements and will perform this engagement for your firm. The engagement will commence on February 16, 19XX, and should be completed by February 23.

Fees and Billing Arrangements

My fee for the financial ratio analysis engagement is \$X,XXX, based on my standard billing rate of \$XX per hour. You will also be billed for out-of-pocket expenses. Billing for the service is monthly. Our invoices are payable on receipt.

Sincerely,

Alex Elliot, CPA
Elliot and Associates

Accepted by _____
For Allen Manufacturing

Date

**Attachment to Sample Engagement Letter:
Suggested Ratios for Analysis**

- Current ratio
- Quick ratio
- Working capital
- Inventory to working capital
- Current asset turnover
- Inventory to current assets
- Gross profit
- Operating profit
- Income before taxes
- Return on equity
- Return on assets
- Accounts receivable turnover
- Accounts receivable days outstanding
- Inventory turnover
- Days in inventory
- Operating cycle
- Accounts payable turnover
- Accounts payable days outstanding
- Asset turnover
- Net revenue to working capital turnover
- Debt to equity
- Current debt to equity
- Operating funds to current portion of long-term debt
- Times interest earned

Sample Engagement Letter—Software Evaluation and Selection

[CPA Firm Letterhead]

January 15, 19XX

Mr. Raymond F. David
Lawrence Enterprises
350 Lafayette Street
Anytown, USA

Dear Mr. David:

This letter contains our understanding of the agreement to assist you in the evaluation and selection of application software. We believe the following approach will thereby enable you to select application software in accordance with your requirements.

ENGAGEMENT OBJECTIVE

The objective of this engagement is to provide you and your personnel with the consultation, instruction, and technical guidance you will need in order to perform an effective evaluation of application systems.

CLIENT BENEFITS

When this engagement is completed, you should receive the following benefits:

- A careful evaluation and analysis of your processing and reporting requirements, which will determine the feasibility of using software to meet these requirements and will allow you to consider which packaged software will be appropriate.
- The development of a detailed systems specification for the selected applications. The specification can be provided to appropriate vendors of packaged software and will help you compare and evaluate various software packages.

PROJECT SCOPE AND APPROACH

To accomplish the objective of this engagement, we will perform the following activities:

Phase 1—Review of the Definition of Requirements

The definition of requirements for each application will be reviewed to gain an understanding of your processing and reporting requirements. Discussions will be held with your personnel to itemize any changes or enhancements that you desire in the requirements defined for each application area.

Phase 2—Analysis and Initial Evaluation of Alternatives

- a. Identify packaged software sources. We will identify sources that can provide software packages for the selected application areas. Packaged software sources will be located in published directories, data processing industry publications, and so on. These vendors will be sent a copy of the application requirements developed during the first phase of the project and will be asked to provide basic information regarding applications under consideration.
- b. Identify those applications whose processing and reporting requirements cannot be met by general application software packages. Occasionally, because of the uniqueness of a company's requirements, general software packages for some applications are not readily available. These applications need to be identified because they may have a substantial impact on the initial costs of implementing automated systems. In some instances management may subsequently decide to eliminate these requirements from the systems objectives rather than incur the cost of developing customized application programs.
- c. Prepare preliminary estimates of the resources required to automate the application areas and their related costs. On the basis of your current and projected key-transaction volumes and your processing and reporting requirements for each application area, a preliminary estimate of additional hardware requirements can be made. With these findings, a realistic range of estimated costs can be developed. We will use published industry sources to determine the range of costs for hardware, application software, equipment maintenance, personnel, and other major expense items.
- d. Accumulate findings and formulate initial recommendations. At this time, enough information is available to evaluate the overall impact of implementing additional data processing capabilities. In addition to estimating one-time and recurring costs for the software itself, we will also identify areas that require detailed systems design and programming.
- e. Present preliminary findings to management. Management will now have sufficient information to decide whether to redirect efforts, discontinue the project, or continue the investigation as planned. If the investigation is continued, phase 3 would begin.

Phase 3—Software Package Evaluation and Selection

- a. Prepare the selection factors. We will provide you with a list of factors often used in evaluating automation alternatives. In addition, we will assist you in ordering and quantifying these factors to best suit your needs. These factors will then be used to evaluate the vendors' proposals and assist in making the software selection decision.
- b. Prepare a request for proposals for packaged software. We will provide each software vendor with the basic information required to make a specific proposal. The request for proposals (RFP) will use a standard format, which assists in comparing and evaluating the proposals, and will include (1) a description of the current system, (2) a list of application requirements, and (3) a list of engagement requirements.
- c. Submit the request for proposals to appropriate vendors, and answer vendors' questions. We will meet with the vendors, if appropriate, to explain the RFP and to answer their questions.
- d. Review and evaluate vendors' proposals. We will evaluate vendors' proposals on the basis of the factors described above and then eliminate less-qualified vendors. We will request additional information from the remaining vendors, for example, reference checks, financial stability, installation site visits, demonstrations, and so on. In addition, we will prepare a cost comparison of the proposed software as well as a detailed schedule of one-time and recurring costs.
- e. Develop final conclusions and recommendations, and present them to management. We will provide a formal report containing the information you need to make a final decision. The report will be accompanied by a complete oral presentation.

PROJECT DELIVERABLES

The deliverables resulting from each phase of this engagement are described below.

Phase 1—Definition of Requirements

- a. Processing and reporting requirements for each application
- b. Key-transaction volumes

Phase 2—Analysis and Initial Evaluation of Alternatives

A phase 2 report containing—

- A list of packaged software sources.
- A list of application areas likely to require program modification.
- Preliminary estimates of additional resource requirements.
- Preliminary cost estimates.
- Preliminary conclusions and recommendations.

Phase 3—Software Package Evaluation and Selection

- a. An RFP containing—
 - A requirements definition for each application.
 - Key-transaction volumes.
 - Background information.
 - Instructions to the vendors.
- b. A phase 3 report containing—
 - A comparison of packaged software features.
 - A comparison of additional hardware requirements.
 - A summary of each vendor's strengths and weaknesses.
 - A summary of vendor reference checks.
 - A detailed cost comparison of the alternatives.
 - Conclusions and recommendations.

The above deliverables will be accompanied by a complete oral presentation.

FEES

The fees for this engagement are based on our standard rates for actual time spent on the engagement plus out-of-pocket expenses. We estimate that our fees for providing the services proposed in this letter will be between \$XX,XXX and \$XX,XXX. We plan to bill you monthly for the services provided.

Sincerely,

Samuel Alexander
Certified Public Accountant

Accepted by _____
For Lawrence Enterprises

Date

Sample Engagement Letter—Word Processing System

[CPA Firm Letterhead]

May 15, 19XX

Mr. Cliff Commons
Commercial Realty Corporation
Any City, USA

Dear Mr. Commons:

This letter states our understanding of your requirements and describes the services that we will provide. You require assistance with the evaluation of your word processing needs and with the selection of a word processing system that will satisfy these requirements. To meet these requirements, we will do the following:

1. Perform a review of your processing requirements.
2. Conduct a feasibility study comparing possible costs against potential benefits of an automated system.
3. Prepare and distribute a request for proposal (RFP) in order to select word processing vendors.
4. Evaluate the responses to the RFP, and assist in the selection of a final vendor.
5. Monitor the installation and implementation of the automated system.

Our fees are based on the time required by the individuals assigned to the engagement, plus direct expenses. Individual hourly rates vary according to the degree of responsibility involved and the skills required. Interim billing will be submitted as work progresses and as expenses are incurred. Payments are due upon receipt of our statement. On past-due amounts a late charge will be assessed on the delinquent balance, based on the prime interest rate in effect at the time as charged by local major lending institutions.

If this letter defines our firm's engagement as you understand it, please sign and date it and return one copy to us. If not, please let us know what changes are needed.

Sincerely,

Pete Smith
CPA & Company
Enclosure

Accepted by _____

Date

Sample Engagement Letter—Litigation Services

[CPA Firm Letterhead]

September 4, 19XX

John Smith, Esq.
Smith, Smith & Jones
100 Courthouse Way
Anytown, USA

Re: Vending Operator, Inc. v. State

Dear Mr. Smith:

This letter constitutes a retainer agreement between the law firm of Smith, Smith & Jones and CPA & Company under which we will provide such consulting services as you or your client, State, may require in connection with the above mentioned litigation. We have been retained as consultants only; however, we understand and accept that we may be requested to furnish judicial testimony.

We will submit monthly bills to you, payable within XX days, which will be based on our standard hourly rates for this type of consulting plus out-of-pocket expenses that may be incurred on your behalf. We will meet with you to define tasks in advance and estimate the cost of each task before incurring any substantial fees for a task.

Our customary practice in litigation consulting engagements is to receive a retainer of \$XXX before beginning work. We will hold this retainer and apply it to the final bill for this engagement. This agreement will become effective as soon as you sign and date it and the enclosed copy as indicated. Please forward the copy to us.

Sincerely,

(Name and title)
CPA & Company

Accepted by _____

Date

Sample Engagement Letter—Operational Audit (Hospital)

[CPA Firm Letterhead]

April 12, 19XX

Mr. Alex Smith, Executive Director
The Memorial Hospital
Youngstown, Ohio 44114

Dear Mr. Smith:

This letter confirms our understanding about the services we discussed last week with you and your administrative staff regarding ways our firm might help Memorial Hospital achieve and maintain one of its major goals: progressive leadership in the community and the region in the delivery of quality health-care services at reasonable cost. In particular, we discussed potential operating efficiencies in systems, methods, and organization.

Problem Areas

Memorial Hospital's systems operate relatively smoothly and without major disruptions, but substantial improvements can be achieved in a number of areas.

A. Communications

Memorial, as with most hospitals, faces a continuing problem of maintaining the flow of essential, detailed information among its many departments, shifts, and specialties. In addition, the hospital's responsibilities to the local medical practice, the patients, and the community require an elaborate and complex information network extending far beyond the hospital.

Because of its complexity, this network frequently fails to provide essential, timely information. As a result, extra work loads tend to be created throughout the hospital. Closing the gaps in this network will (1) eliminate the extra work loads and unnecessary associated risks and (2) result in more reliable and efficient internal operation.

B. Paperwork

Again, in comparison with other hospitals, Memorial faces massive paperwork requirements. From internal accounting records and insurance forms to medical records and charts, the total record keeping is a major portion of Memorial's work load, perhaps equalling direct patient care in man hours and labor costs. A concentrated effort to streamline this paperwork could save much time and money in almost every hospital function.

C. Organization, Staffing, and Work Assignments

As the cost of services has increased, the traditional methods of organizing a modern hospital have come under close scrutiny from administrators, insurance departments, legislators, and the public. Hospitals must reexamine their methods and restructure their activities for higher efficiency and economy than was expected in past years. Aside from the economics of this problem, Memorial Hospital has grown to a point where this type of reexamination is essential to maintain leadership among the area hospitals.

Operations Improvement Program

Working closely with hospital personnel, we will carefully review your activities—from nursing services and ancillary departments to administration, maintenance, and housekeeping—to identify and evaluate the following:

1. Formal and informal structures
2. Paperwork systems and procedures
3. Current work assignments
4. Staffing and staff utilization
5. Supervisory, managerial, and administrative requirements
6. Communications network and information requirements, including management reports
7. Facilities scheduling methods

We will interview extensively, including administrators, department heads, supervisors, and selected staff members, as well as members of key medical staff committees. You have assured us of their full cooperation. We will also examine in detail all currently used forms and documents and thoroughly analyze reports and records covering hospital operations. In our review, we will consider Memorial Hospital's near-term growth and expansion plans.

After we review and evaluate each area listed above, we will prepare two types of detailed recommendations for operational improvements:

- Those which can be implemented rapidly (without extensive systems design or conversion efforts)
- Those which require a system design and implementation project to install

Each recommended change will be supported by an analysis of projected benefits—increased efficiency, improved communications, and prospective cost reductions. Each change will also show a proposed implementation schedule. We consider this integrated program the most economic and effective approach to achieve Memorial Hospital's objectives.

Expected Benefits

A project of this type can be expected to yield the following:

1. Modify the existing communications network to materially improve communications and response. For the short term, we would expect to close major communications gaps and eliminate major redundancies.
2. Reduce paperwork volume through consolidation of forms, minor form modifications, and elimination of unnecessary paperwork.
3. Improve operational efficiency through limited adjustments of work loads and work assignments.

Our experience with similar projects has shown a 1-percent to 2-percent cost reduction resulting directly from these types of recommendations. From this experience and our preliminary review of your hospital operations, we estimate a potential annual cost reduction of more than \$50,000 without impairing operational efficiency. Actual savings depend on your adoption and implementation of recommendations and other factors.

Implementation Projects

Until the detailed review is complete, we are not prepared to identify the prospective benefits of major recommendations, although our experience is that substantial additional improvement will result. In presenting each major recommendation, we will clearly identify the potential benefits, the expected cost to implement, and the proposed plan. Thus, Memorial Hospital will be able to judge the value and priority of each project before proceeding with it.

Project Organization

The project will be under the overall supervision of a partner from our firm's MAS Division, working closely with Mr. Schlag. The staff will consist of a supervisory consultant, a senior consultant, a team of four analysts, and one to two hospital employees assigned full-time to our analyst staff. We also ask that the hospital assign part-time liaison representatives from the nursing and medical staffs to provide technical support in those areas.

Fee Estimate and Timetable

We estimate that our fee will range from \$XX,XXX to \$XXX,XXX. Our policy is to bill every two weeks for services and costs. Payment is due when invoices are rendered.

We will keep you informed of our progress during the engagement. If time actually spent is less than our estimate, you will be billed for the lesser amount. If we encounter extraordinary problems that could increase the quoted fee, we

will inform you immediately. You have agreed to pay us a \$XX,XXX retainer to apply against the final billing.

We are pleased to have you as a client and hope this will begin a long and pleasant association. If the above agrees with your understanding of the terms of our engagement, please sign this letter in the space indicated and return one copy to us, together with a check for \$XX,XXX.

Sincerely,

Swift, March & Company

Partner

Approved by _____

Date

Sample Engagement Letter—Operational Audit (Office)

[CPA Firm Letterhead]

April 23, 19XX

Mr. Alex Espada, President
ABC Steel Company, Inc.
Dover, Delaware 19810

Dear Mr. Espada:

We recently met with Mr. Baker, your controller, to identify problem areas and formulate a work program for a detailed examination of the accounting system and related office procedures. We subsequently met with you and Mr. Baker to discuss our preliminary findings and review our work program. We agreed to study the accounting and office systems and procedures of ABC Steel Company, Inc., and affiliated companies. This letter will summarize the objectives of our study and the way we intend to conduct it.

Our objectives will be to streamline the office and accounting procedures to provide prompt closing of the books and current management reports. We will also attempt to improve the punctuality and accuracy of the inventory records used by the sales group and by accounting, and we will be alert to the control features of any system we recommend. We will consider increased mechanization, as well as changes in systems and paperwork flow, to attain these objectives. We propose to proceed in the following manner:

- Review the present procedures for purchasing, processing suppliers' invoices, accounts payable, general ledger distribution, and cash disbursements.
- Review the order processing, billing, accounts receivable, and cash procedures.
- Study the inventory status, costing, and valuation procedures.
- Meet with management to discuss information needs and operating requirements.
- Evaluate the present system and set the basic design of a new or modified system; meet with representatives of equipment manufacturers to define the system requirements and advise them of the equipment and systems information we expect to find in their proposals.
- Evaluate in detail the proposals submitted by the equipment manufacturers. We will consider the capabilities of the equipment and its economic feasibility related to the needs of ABC Steel Company, Inc.
- Prepare a written report outlining our findings and recommendations.
- Meet with management to discuss our report.

Our management advisory services fees are based on the time we devote to the engagement. We will attempt to keep our time to a minimum by working closely with your accounting personnel and with representatives of equipment manufacturers. We estimate that the fee for this study, computed at per diem rates, will be from \$X,XXX to \$XX,XXX. We will render statements every two weeks for services and costs incurred during that period. We would appreciate payment of these invoices as they are received. We will require a \$X,XXX retainer before we begin the engagement. We expect to start this engagement within the next three to four weeks and will contact you to set the precise date.

The engagement does not include installing any equipment we might recommend. However, we will be available to assist in such installation as a separate engagement, and to supervise the design of required forms and the preparation of operating manuals.

If the above agrees with your understanding of the terms of our engagement, please sign this letter in the space indicated and return one copy to us, together with your check for \$X,XXX. Thank you for retaining us. We hope this will be the beginning of a long and mutually beneficial association.

Sincerely,

Swift, March & Company

Partner

Approved by _____

Date

Sample Engagement Letter—Cash Management

[CPA Firm Letterhead]

September 10, 19XX

Mr. Robert Johnston
Johnston Products Co.
1245 45th Street
Anytown, USA

Dear Mr. Johnston:

This letter outlines our understanding of the arrangements we made in your office yesterday about the cash management practices of Johnston Products Co.

Nature and Scope of Work

We will review your cash management policies, including banking practices, billing and collection policies, cash disbursements, and other related procedures. The objective of the engagement is to identify alternative procedures that may increase your available cash funds and to suggest how funds may be more effectively utilized.

Roles

To provide an effective framework for this engagement, both parties must have a clear understanding of the company and their respective roles. Our role encompasses the following:

- Review the history of the company.
- Analyze the financial statements of the company and prepare appropriate ratio analyses.
- Prepare a flowchart of cash procedures.
- Prepare an organization chart, or review the existing chart.
- Analyze customer and supplier lists.
- Complete a detailed questionnaire.
- Meet with you to discuss our preliminary findings.
- Investigate problem areas to be identified.
- Develop our recommendations.
- Report our recommendations to you.

Your role encompasses the following:

- Provide financial records and other data that we may request.
- Make your staff available for interviews and conferences, as needed.

- Make timely decisions on the various aspects of this engagement.
- Coordinate with our staff in developing the goals necessary to improve the management of cash.

Our role is essentially one of investigating, evaluating, and advising; while we will exert our best effort, we offer no assurance that the company's cash position will be dramatically improved. If at any time it becomes evident that continuing the engagement may not be cost-effective, we will discuss this situation with you.

Personnel

Jeff James of our staff has been assigned the responsibility of directing our activities in this engagement. It is our understanding that Earl Murray of your management group will serve with your organization.

Goals and Benefits

The goals of this engagement will be to develop recommendations intended to (1) maximize cash flow, (2) minimize cash outflow, and (3) maximize the yield on idle funds. The tangible benefits of this engagement should be improved liquidity and increased profits. Intangible benefits should include a better understanding of company goals by company personnel involved in the study.

Timing and Duration

We are beginning this engagement immediately and expect to complete it in approximately two weeks. This timetable assumes adequate cooperation by your personnel and the ready availability of the information needed to prepare the various documents required for the engagement.

Engagement Completion

We shall consider the engagement complete when we have presented our final report to you, and at that time you have no further questions on the subject of cash management. If, during the engagement, either of us becomes aware of facts or circumstances that would preclude a successful conclusion of the engagement, the engagement may be terminated by one party notifying the other party in writing.

If you should wish our firm to assist in the implementation of our recommendations, we would be pleased to do so as an extension of this engagement.

Fees and Payments

Our fees for this engagement are based on time expended at our standard hourly rates. Any out-of-pocket expenses will be billed in addition to our fees. Our normal practice is to issue invoices monthly, as the fees and expenses are incurred. Our invoices are payable on receipt.

Conclusion

We appreciate this opportunity to serve Johnston Products Co. and look forward to a mutually rewarding association. If this letter is in accordance with

your understanding of the services we are to perform for Johnston Products Co., please sign it and return the enclosed copy to us. If any part of this letter differs from your understanding of this engagement, please notify us at once so that we can establish a proper mutual understanding.

Sincerely,

Fred Byron, CPA
Foley & Monte, CPAs

Accepted by _____
Robert Johnston
President, Johnston Products Co.

Date

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